

Message Text

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ORIGIN EB-08

INFO OCT-01 ISO-00 AF-08 ARA-10 EA-09 EUR-12 NEA-10 SIG-02
AGRE-00 CIAE-00 COME-00 INR-07 LAB-04 NSAE-00 SP-02
STR-04 TRSE-00 FRB-01 OMB-01 FTC-01 L-03 AID-05 IGA-02
H-02 SS-15 NSC-05 PA-02 PRS-01 USIA-15 /130 R

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AF/EPS:DMCCULLEN

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R 012056Z MAR 77
FM SECSTATE WASHDC
TO ALL AMERICAN REPUBLIC DIPLOMATIC POSTS
AMEMBASSY ABIDJAN
AMEMBASSY ACCRA
AMEMBASSY ADDIS ABABA
AMEMBASSY BANGUI
AMEMBASSY BUJUMBURA
AMEMBASSY CONAKRY
AMEMBASSY COTONOU
AMEMBASSY FREETOWN
AMEMBASSY DAR ES SALAAM
AMEMBASSY JAKARTA
AMEMBASSY KIGALI
AMEMBASSY KINSHASA
AMEMBASSY LAGOS
AMEMBASSY LIBREVILLE
AMEMBASSY LOME
AMEMBASSY MONROVIA
AMEMBASSY NAIROBI
AMEMBASSY NEW DELHI
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO
AMEMBASSY TANANARIVE
AMEMBASSY YAOUNDE
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AMEMBASSY LONDON
USMISSION OECD PARIS
USMISSION EC BRUSSELS
USCINCSO
XMT AMEMBASSY BRIDGETOWN
AMEMBASSY BUENOS AIRES
AMEMBASSY GEORGETOWN

AMEMBASSY MONTEVIDEO
AMEMBASSY NASSAU
AMEMBASSY PARAMARIBO
AMEMBASSY SANTIAGO

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E.O. 11652: N/A

TAGS: ETRD, EAGR

SUBJECT: CONGRESSIONAL COFFEE HEARINGS

REF: STATE 03956 AND 03957

1. SUMMARY. CONGRESSIONAL HEARINGS ON COFFEE PRICES CONDUCTED ON FEBRUARY 22 AND 23 INCLUDED CHARGES THAT BRAZIL HAS BEEN CONDUCTING A CAMPAIGN TO INFLATE AND ARTIFICALLY MAINTAIN HIGH COFFEE PRICES. STATE AND OTHER GOVERNMENT AND INDUSTRY WITNESSES TESTIFIED THAT THERE IS NO EVIDENCE TO SUPPORT SUCH CHARGES. PRESS COVERAGE TO DATE HAS BROUGHT OUT BOTH SIDES OF THE ARGUMENT, BUT HAS FOCUSED MORE ON ALLEGATIONS OF MANIPULATION THAN ON STATEMENTS TO THE CONTRARY.

2. ON FEBRUARY 22 AND 23, CONGRESSMEN ROSENTHAL (GOVERNMENT OPERATIONS) AND RICHMOND (AGRICULTURE COMMITTEE) CO-CHAIRLED HEARINGS ON THE HIGH PRICE OF COFFEE. REPRESENTATIVES FROM CONSUMER GROUPS, THE TRADE AND GOVERN-
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MENT AGENCIES, INCLUDING STATE AND AGRICULTURE, PRESENTED TESTIMONY. THE HEARINGS SPECIFICALLY SOUGHT TO DETERMINE IF PRESENT HIGH PRICES ARE THE RESULT OF MANIPULATION BY PRODUCING COUNTRY GOVERNMENTS AND WHETHER THE STATE DEPARTMENT BEARS ANY RESPONSIBILITY THROUGH ITS ROLE IN THE NEW INTERNATIONAL COFFEE AGREEMENT.

3. AT THE OUTSET OF THE HEARINGS CONGRESSMAN RICHMOND MADE PUBLIC SEVERAL OF THE UNCLASSIFIED CABLES FROM U.S. POSTS IN BRAZIL CLAIMING THAT THEY REVEALED, "THAT THE GOVERNMENT OF BRAZIL HAS BEEN CONDUCTING A DELIBERATE, PERVASIVE CAMPAIGN TO INFLATE AND ARTIFICALLY MAINTAIN COFFEE PRICES AT RECORD LEVELS". HE SAID THAT THEIR PRINCIPAL TOOL WAS THE EXPORT TAX, BUT THAT STOCK REGULATION AND PURCHASES FROM OTHER COUNTRIES WERE USED AS WELL.

4. JULES KATZ AND JOAN BRADEN TESTIFIED FOR STATE ON FEBRUARY 22 THAT HIGH COFFEE PRICES ARE DUE TO REDUCED SUPPLIES AND CONTINUED HEAVY DEMAND, NOT TO ANY ARTIFICIAL

RESTRAINTS ON COFFEE TRADE BY GOVERNMENTS OF PRODUCING COUNTRIES. THEY ALSO EXPLAINED THE ACTIONS TAKEN BY STATE DEPARTMENT TO MEET THE INTERESTS OF THE U.S. CONSUMER BY NEGOTIATING THE 1976 COFFEE AGREEMENT THAT ENCOURAGED EXPORTS AND REPLANTING, BY MONITORING THE PRICE RISE CLOSELY, AND BY MAKING BILATERAL AND MULTILATERAL REPRESENTATIONS EXPRESSING OUR CONCERN THAT HIGH PRICES WILL RESULT IN LOSSES TO CONSUMPTION AND EXPORT EARNINGS. THIS TESTIMONY WAS CHALLENGED BY SEVERAL COMMITTEE MEMBERS WITH PRIMARY CONCENTRATION ON THE INTENT AND ABILITY OF THE BRAZILIAN GOVERNMENT TO SUBSTANTIALLY AFFECT THE LEVEL OF WORLD COFFEE PRICES.

5. STATE'S TESTIMONY WAS SUPPORTED IN SUBSTANCE BY TESTIMONY FROM THE COFFEE TRADE AND INDUSTRY, WHO ALSO STATED THAT HIGH PRICES HAD ALREADY CAUSED DECLINES IN CONSUMPTION IN THE LAST FOUR MONTHS OF OVER 4 PERCENT FROM A YEAR
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AGO. AS RETAIL PRICES CATCH UP EVEN GREATER DECLINES ARE EXPECTED AND IF PRICES REMAIN HIGH THEY COULD CAUSE A SIGNIFICANT PERMANENT REDUCTION IN DEMAND. AT LEAST ONE COMPANY IS CURRENTLY TEST MARKETING A BRAND DESIGNED TO INCREASE THE AMOUNT OF COFFEE EXTRACTED FROM EACH ROASTED PARTICLE BY 10 TO 25 PERCENT.

6. THE VICE CHAIRMAN OF THE COMMODITY FUTURES TRADING COMMISSION (CFTC) TESTIFIED THAT INVESTIGATIONS AND ANALYSES MADE BY THE COMMISSION HAVE FOUND NO EVIDENCE OF MANIPULATION OR MARKET CONTROL. HE SAID THAT CFTC IS CURRENTLY INVESTIGATING TRADING ON JANUARY 11 WHEN THE SALVADORAN COFFEE COMPANY WAS PARTICULARLY ACTIVE, BUT THAT THIS DOES NOT MEAN THERE IS PRESENTLY EVIDENCE OF MANIPULATION.

7. PRESS COVERAGE TO DATE HAS BROUGHT OUT BOTH SIDES OF ARGUMENTS, BUT HAS FOCUSED MORE ON ALLEGATIONS OF MANIPULATION THAN ON STATEMENTS TO THE CONTRARY.

8. AT THE CONCLUSION OF THE HEARINGS CONGRESSMAN RICHMOND SAID THAT HE WOULD MAINTAIN CONTACT WITH THE DEPARTMENTS OF STATE AND TREASURY TO SEEK POSSIBLE REMEDIES TO CURRENT HIGH PRICES.
VANCE

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Message Attributes

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Disposition Approved on Date:
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Disposition Remarks:
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